

2005 Annual Report



Our Mission

It is the mission of Leader Bank to provide superior products and services to promote economic growth and stability within the communities we serve. We strive for the following:

To operate a business centered around the needs of our **customers**.

To create a healthy environment for our **employees** that cultivates motivation and enthusiasm.

To earn an acceptable return for our **shareholders** by operating an ethical business.

Our Logo

The Leader Bank compass signifies our goal to help guide the communities we serve to financial success. As we move through life together, our compass will continue to provide direction to our company, employees and customers.

Dear Shareholders, Customers and Friends:



I am pleased to present our annual report for the period ending December 31, 2005, our fourth year of operations. This was a year of great achievement, profitability and growth for Leader Bank. Since opening doors in 2002, Leader Bank has grown from a single branch with \$6.9 million in assets to three full service branches with over \$183 million in assets.

In the midst of consolidation among larger banks, we have successfully and organically grown as a community bank. Each new merger has provided an opportunity for us to strengthen our team of qualified employees, retain new customers and increase our market share. Our commitment to personal service, prompt responsiveness to customers and the accessibility of our Senior Management continues to set Leader Bank apart from the competition.

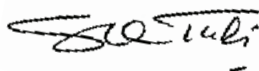
The third branch of Leader Bank opened in June 2005 in Central Square, Cambridge. As we ventured into this community, we achieved results that exceeded all expectations. Total deposits as of December 31, 2005 in Central Square exceeded \$18 million. We are excited about the great future potential for Leader Bank in Cambridge.

We continued to prove our dedication, creativity and leadership in the Arlington community in 2005. Leader Bank worked with the Arlington Chamber of Commerce to launch the Shop Arlington First initiative and with the Hardy School to create a Professional Development Activities Fund. These two programs are just samples of the many community-based projects in the works.

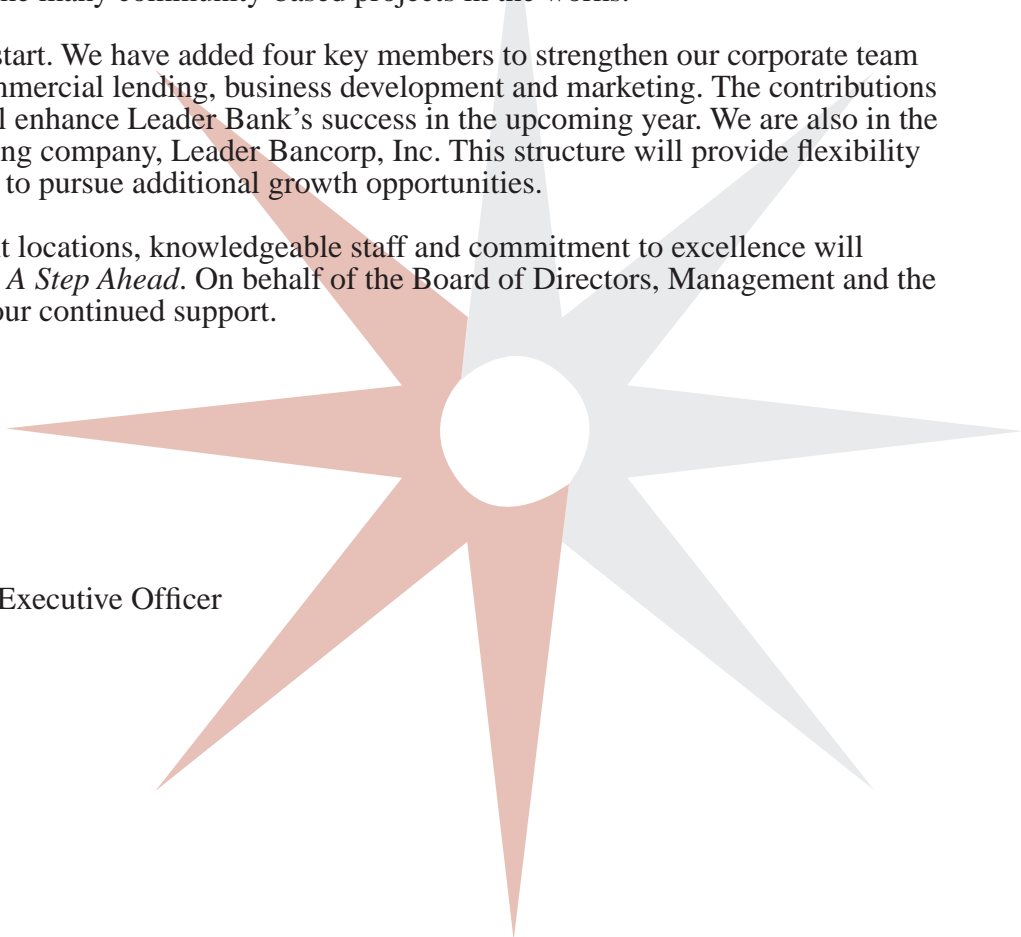
2006 is already off to a great start. We have added four key members to strengthen our corporate team in the areas of operations, commercial lending, business development and marketing. The contributions of our new team members will enhance Leader Bank's success in the upcoming year. We are also in the final stages of forming a holding company, Leader Bancorp, Inc. This structure will provide flexibility in raising capital and allow us to pursue additional growth opportunities.

We believe that our convenient locations, knowledgeable staff and commitment to excellence will continue to keep Leader Bank *A Step Ahead*. On behalf of the Board of Directors, Management and the Employees, I thank you for your continued support.

Sincerely,



Sushil K. Tuli
Chairman, President & Chief Executive Officer



Growth

Asset and Deposit Growth

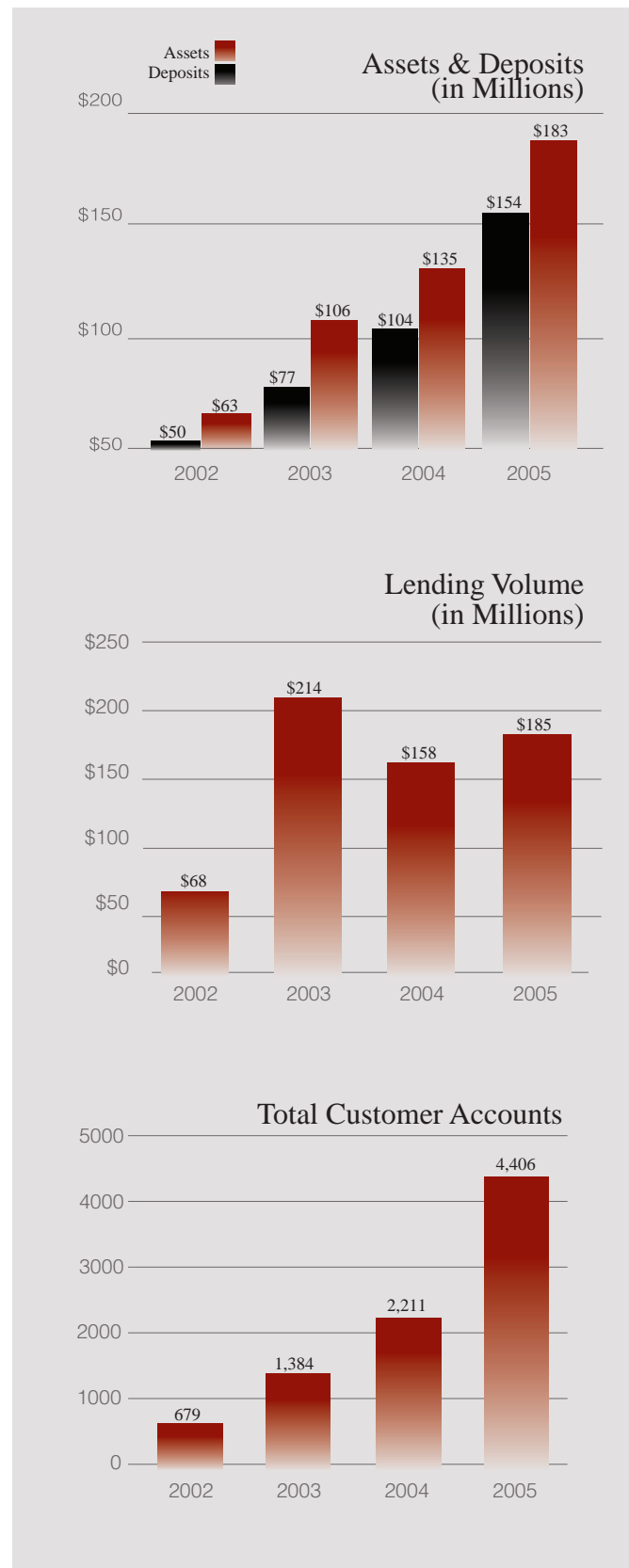
2005 was a significant year for asset and deposit growth. We concluded the year with \$183 million in assets and \$154 million in deposits. Our deposit growth of \$50 million was largely attributed to the increased name recognition of Leader Bank and special deposit promotions introduced throughout the year.

Loan Growth

Loan volume in 2005 was strong despite rising interest rates. Total loan volume increased by \$27 million to \$185 million, of which a growing portion was contributed by the commercial portfolio. The slowing down of the refinance market encouraged Leader Bank to actively pursue residential purchases as well as small business and commercial loans. The quality of both our residential and commercial portfolio remains very strong.

Account Growth

Leader Bank opened 2,195 new accounts in 2005, a 99% increase from the previous year. The growth is a result of efforts made by our Branches to reach out to new customers and strengthen existing relationships. Increased marketing and cross-selling techniques will further accelerate this growth in the future.



Arlington Branches

East Arlington (Opened May 2002)

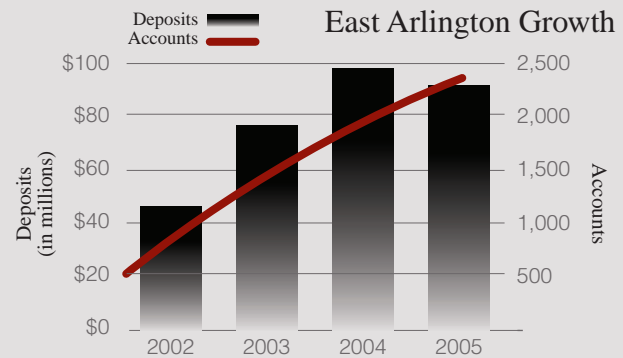
Leader Bank's main branch continues to grow and increase our presence within the Arlington community. Branch Manager, Bret Schofield and his team have aggressively sought new banking relationships with local businesses and community organizations. The main branch helped launch new products in 2005 including Document Custodian and Lock Box Services.

The East Arlington and Arlington Center Branches supported the Shop Arlington First program, Arlington First Lights celebration and Feast of the East.

The East Arlington Branch completed a successful year in 2005 with \$90 million in deposits and over 2,300 total customer accounts.



Leader Bank's first branch in East Arlington is located at 141 Massachusetts Avenue, only one block away from the Corporate Office.

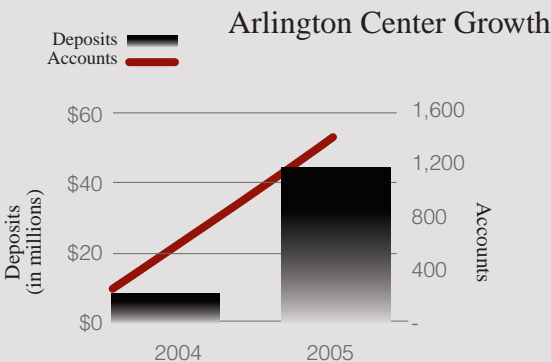


Arlington Center (Opened September 2004)

Arlington Center Branch Manager, Marc Sannizzaro, has taken a lead role in a number of community initiatives. Leader Bank worked with the Hardy School to create a Professional Development Activities Fund and further promote the Kid's Club Bank Accounts. The Arlington Center Branch also participated in the Annual

Town Day Celebration and the National Guards' Toys for Tots program.

The Arlington Center Branch completed a successful year in 2005 with deposits totaling \$46 million and more than 1,300 total customer accounts.



The Arlington Center Branch is located in the midst of a busy neighborhood surrounded by restaurants, local businesses and residences.

Cambridge Branch

Central Square, Cambridge (Opened June 2005)



Mark Orent (back left), Sushil K. Tuli (front left) and Cambridge Mayor, Michael A. Sullivan (front right) share the ribbon cutting ceremony at the Central Square Branch.

On June 29th, 2005 Leader Bank achieved another significant milestone in its corporate history with the opening of our third branch in Central Square, Cambridge. The expansion into this vibrant community marks Leader Bank's first step into the Cambridge market.

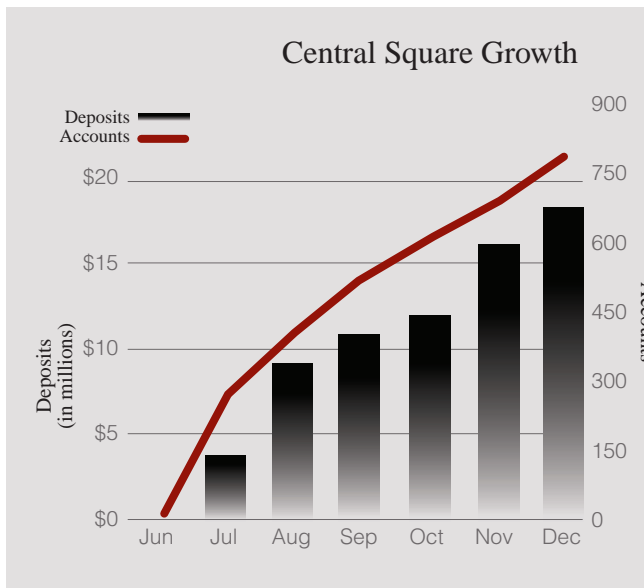
The Central Square Branch, managed by Mark Orent, moved quickly in spreading our name and acquiring customers. They surpassed expectations within just two months of operations.

Leader Bank looks forward to building off this success and establishing a long-term presence in the Cambridge community.

The Central Square Branch closed 2005 with over \$18 million in deposits and more than 780 accounts.



The Central Square Branch is located at 675 Massachusetts Avenue, right across from the Central Square stop on the Red Line.



The Cambridge branch is located in the heart of Central Square at the intersection of Massachusetts Avenue and Prospect Street. This prominent location is in the midst of a bustling neighborhood filled with restaurants, local businesses, residents and students. We expect our growth in Central Square to continue through 2006 as we introduce new products and services to the community.

Leader Bank in the Community



Source: The Hardy Elementary School, Town of Arlington

The Hardy School

In September 2005 Leader Bank collaborated with the Hardy School to create a Professional Development Activities Fund. This Fund helps support development activities for the Teachers and Staff of the Hardy School. Leader Bank makes a donation to the Fund based on each banking service utilized by a member of the Hardy School community.

Due to the success of the Hardy School initiative, Leader Bank is working to introduce similar programs in neighboring school districts.

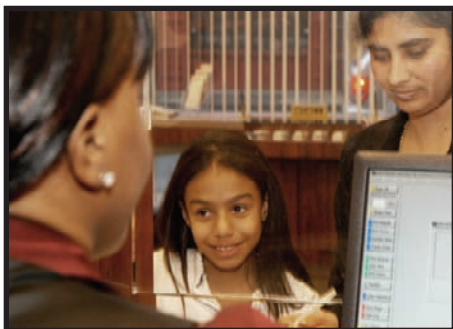
Shop Arlington First

Leader Bank worked with the Arlington Chamber of Commerce to launch the Shop Arlington First initiative. The Shop Arlington First program allows local consumers to purchase gift certificates that are redeemable in participating Arlington-based businesses. Gift certificates to the program are sold at our Arlington Branches, which have received a significant amount of foot traffic as a result. Since the inception of the program, over \$25,000 in gift certificates have been purchased by local residents.

The success of this program in Arlington has encouraged the Cambridge Chamber of Commerce to pursue a similar initiative with Leader Bank in 2006.



Representatives from both the Arlington Chamber of Commerce and Leader Bank join together for the official launch of Shop Arlington First.



Leader Bank representatives, Varsha Patel and Lisa Boyce, help a child from the neighboring YWCA open a Kid's Bank Club Account.

Kid's Bank Club

At the suggestion of Branch Manager Marc Sannizzaro, Leader Bank created a Kid's Bank Club program that has attracted many parents and children alike. Children who open a Kid's Club savings account receive their own passbook, which they use to track the money they have saved. For every opening deposit of \$100 or more, Leader Bank offers the child a free gift.

The Kid's Club program has successfully added over 200 accounts in 2005. A new account for a child often leads to a banking relationship with the entire family.

Lending

Residential Lending

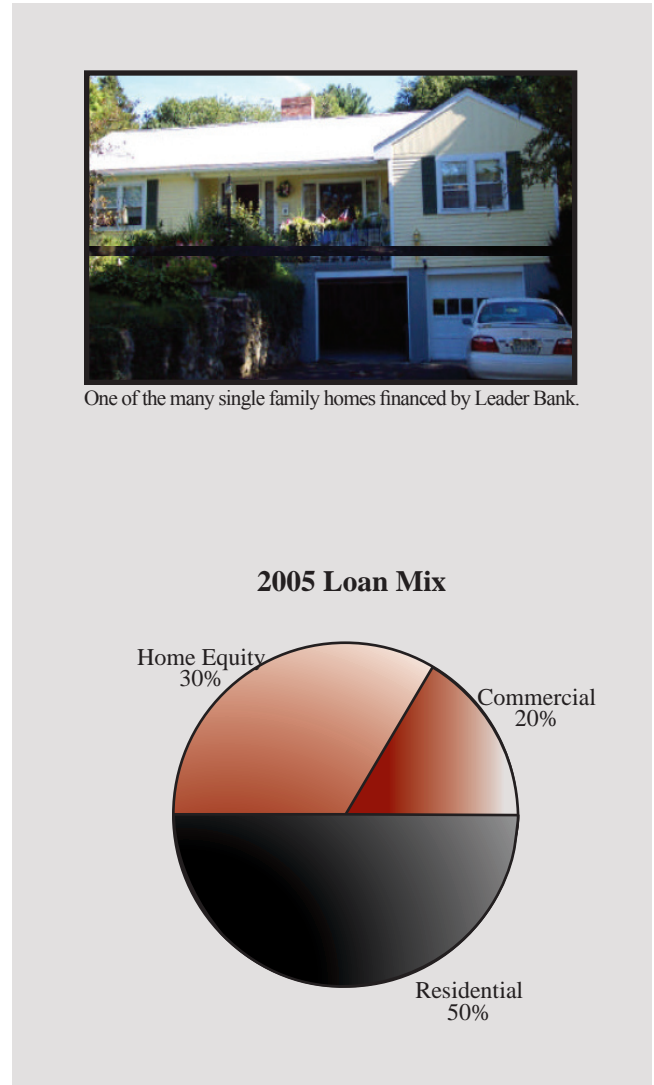
Residential lending continues to be one of Leader Bank's greatest strengths. We have provided financing for over 2,000 homeowners totaling more than a half billion dollars in lending volume. Leader Bank is an active residential construction lender in the neighboring communities and helps finance new developments such as the Hatfield Court Luxury Condos in Worcester, MA.

Despite rising interest rates in 2005, we originated \$167 million in new loans due to our increased presence in the surrounding neighborhoods. Our out-of-state lending has continued to grow, contributing over 8% of total volume in 2005. Home equity products have also increased as consumers look to consolidate debt and renovate their homes.

Changes in the real estate market in 2005 encouraged more creative financing options from the lending industry. In order to remain competitive, we expanded our investor base in the secondary market to offer more flexible financing programs.

Commercial Lending

We successfully achieved our goal of increasing commercial lending activity in 2005 by hiring a new staff solely dedicated to pursuing these opportunities. The mix of our portfolio has grown more diverse and now includes 5+ Unit Apartments, Retail and Office buildings, Day Care Centers and Motels. The Bank originated and closed several significant transactions in 2005 including:



Mic Mac Motel
York, ME

September 2005

Subway Shop
Cambridge, MA

October 2005

Office Building
Belmont, MA

February 2005

The Armory
Natick, MA

April 2005

Deposit Products

Leader Bank prides itself in offering “No Fee” accounts to our individual and business customers. Through our membership with the SUM network, our customers have access to 2,800 ATM locations throughout the country at no charge.

Checking Accounts

Leader Bank offers free personal and business checking accounts. Our various checking account options include:

- Personal Checking
- Business Checking
- IOLTA Accounts
- Money Market Accounts

We added 590 new checking accounts in 2005, bringing the total to 1,018. This strong performance indicates that more customers are turning to Leader Bank as their primary banking institution.

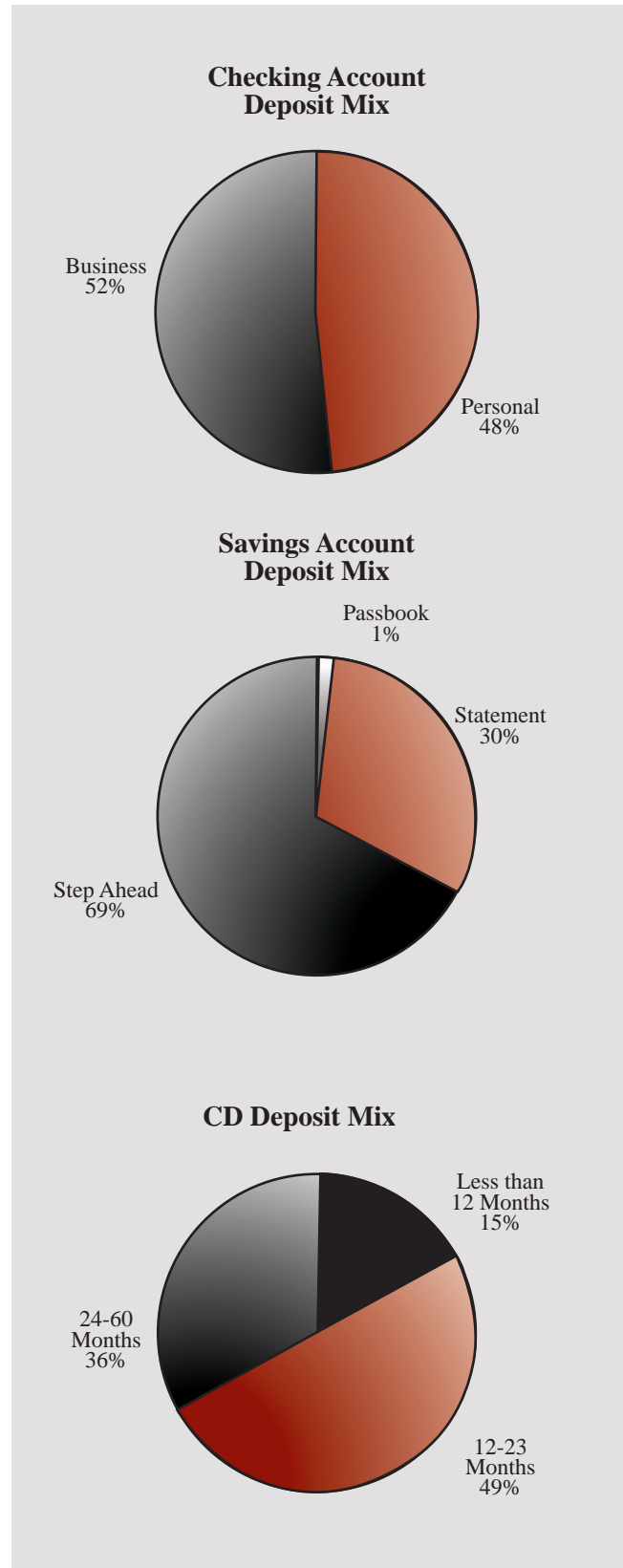
Savings Accounts / Certificates of Deposit

Our savings accounts and CDs offer attractive interest rates and are popular among individuals, businesses and IRA account holders. We offer the following Savings Accounts:

- Passbook Savings
 - Passport Size Notebook
 - Kid’s Bank Club
- Statement Savings
 - Fixed Interest Rate
- Step Ahead Savings
 - Tiered Interest Rate Based on Balance
- Certificates of Deposit
 - 3 Months - 5 Years Maturity

Online Banking and Online Bill Pay

Leader Bank offers free online banking and online bill pay services to both personal banking and business banking customers. Our online banking system allows customers to view all of their Leader Bank accounts on a single screen. Writing checks or creating automated bill-pay rules is simple and frequently used by many of our regular customers.



Financial Statements

LEADER BANK, N.A. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

Years Ended December 31, 2005 and 2004
(Unaudited, In Thousands)

ASSETS

	<u>2005</u>	<u>2004</u>
Cash and due from banks	\$3,702	\$1,069
Interest-bearing deposits	30,551	23,954
Cash and cash equivalents	<u>34,253</u>	<u>25,023</u>
Certificates of deposit	4,383	2,018
Securities held to maturity, at cost	6,000	3,000
Restricted equity securities, at cost	1,490	1,490
Loans held for sale	490	1,063
Loans, net	133,802	97,971
Mortgage servicing assets	530	716
Premises and equipment, net	983	941
Accrued interest receivable	692	411
Other assets	<u>470</u>	<u>1,856</u>
	<u>\$183,093</u>	<u>\$134,489</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	\$154,415	\$103,687
Federal Home Loan Bank advances	15,351	18,295
Other liabilities	978	641
Total liabilities	<u>170,744</u>	<u>122,623</u>
Stockholder's equity;		
Preferred stock, \$1.00 par value; 500,000 shares authorized; no shares issued		
Common stock, \$1.00 par value; 3,000,000 shares authorized; 1,049,580 issued and outstanding	1,050	1,050
Additional paid-in-capital	9,810	9,810
Retained earnings	1,489	1,006
Total stockholder's equity	<u>12,349</u>	<u>11,866</u>
	<u>\$183,093</u>	<u>\$134,489</u>

An audited financial statement is available in electronic format upon request to btaylor@leaderbank.com.

**LEADER BANK, N.A. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, 2005 and 2004
(Unaudited, In Thousands)

	<u>2005</u>	<u>2004</u>
Interest and dividend income:		
Interest and fees on loans	\$6,726	\$4,277
Interest and dividends on securities and certificates of deposits	288	167
Interest on interest-bearing deposits	<u>580</u>	<u>261</u>
Total interest and dividend income	<u>7,594</u>	<u>4,705</u>
Interest expense:		
Interest on deposits	3,347	1,877
Interest on Federal Home Loan Bank advances	<u>614</u>	<u>528</u>
Total interest expense	<u>3,961</u>	<u>2,405</u>
Net interest income	3,633	2,300
Provision for loan losses	<u>242</u>	<u>210</u>
Net interest income, after provision for loan losses	<u>3,391</u>	<u>2,090</u>
Non-interest income:		
Net gain on sale of loans	849	1,237
Gain on sale of mortgage servicing assets	--	36
Net loan servicing expense	(18)	(165)
Miscellaneous	<u>104</u>	<u>100</u>
Total non-interest income	<u>935</u>	<u>1,208</u>
Non-interest expense:		
Salaries and benefits	1,865	1,096
Occupancy and equipment	596	363
Professional services	209	249
Data processing	221	170
Advertising and marketing	198	125
Other general and administrative	<u>416</u>	<u>405</u>
Total non-interest expense	<u>3,505</u>	<u>2,408</u>
Income before taxes	821	890
Provision for income taxes	338	367
Net income	<u>\$483</u>	<u>\$523</u>

Board of Directors

Sushil K. Tuli – *Chairman, President & CEO Leader Bank*

Mr. Tuli is the Founder, CEO and Chairman of Leader Bank. Mr. Tuli has been involved in the mortgage banking industry for over 20 years. In 2003 and 2005, Mr. Tuli was a finalist for the Ernst & Young New England Entrepreneur of the Year Award.



Donald B. Jennings – *General Partner, The Partnership for Bank Capital, L.P.*

Mr. Jennings has been in the banking industry for over 35 years. He has been a general partner of three partnerships investing in banks and thrifts for over 15 years. Committees: Chair of Audit, Chair of Compensation, Chair of Investment, Loan

Steven N. Kane – *CEO, GameLogic*

Mr. Kane is the Founder, Chairman & CEO of GameLogic in Waltham, Massachusetts. Mr. Kane is also an Overseer of the Joslin Diabetes Center, the world's most respected facility for the study and treatment of diabetes. Committees: Compensation



William P. Monahan, Esq. - *Attorney*

Mr. Monahan is an attorney in private practice, specializing in family law and domestic relations. Mr. Monahan was elected for seven consecutive terms to the Board of Selectmen of the Town of Belmont. Committees: Audit, Loan

James M. McKenna, Esq. – *Attorney*

Mr. McKenna is an attorney in private practice, specializing in real estate law. Most recently, he served as the Chief of Staff and Chief Operating Officer for the Town of Gloucester. He has assisted numerous entities in pursuing venture funding, strategic planning, media relations and business development. Committees: Audit, Loan

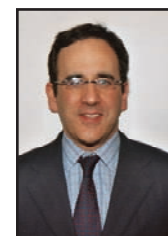


Nitin Nohria, Ph.D – *Professor, Harvard Business School*

Professor Nohria is the Senior Associate Dean and Director of Faculty Development at the Harvard Business School. Professor Nohria serves on various advisory boards and has written several critically acclaimed books. Committees: Compensation

Eric Silverman – *Chairman, MCMUSA, Inc.*

Mr. Silverman is an active entrepreneur and investor in a number of businesses. He is the Chairman and Treasurer of MCMUSA, a Newton, MA based construction management company. Committees: Chair of Loan, Investment, Compensation



Management

Sushil K. Tuli – *Chairman, President & CEO Leader Bank*

Mr. Tuli is the Founder, CEO and Chairman of Leader Bank. Mr. Tuli has been involved in the mortgage banking industry for over 20 years. In 2003 and 2005, Mr. Tuli was a finalist for the Ernst & Young New England Entrepreneur of the Year Award.



Brian R. Taylor, CPA – *Senior Vice President, Chief Financial Officer*

Mr. Taylor manages all financial operations at Leader Bank and is essential to the Bank's continued compliance with OCC and FDIC regulations. He has been with Leader Bank since its opening in 2002.



John Fanciullo – *Senior Vice President, Operations*

Mr. Fanciullo's extensive banking expertise adds strength to Leader Bank's team. He manages all operational, compliance and information technology activities for Leader Bank.



Officers

Branches

Mark Orent, *Vice President, Branch Manager, Central Square*

Bret Schofield, *Assistant Vice President, Branch Manager, East Arlington*

Marc Sannizzaro, *Branch Manager, Arlington Center*

Lending

Alfred Odoardi, *Senior Vice President, Commercial Lending*

Kenneth A. Masterson, *Vice President, Residential Lending*

Nikita Agarwal, *Assistant Vice President, Residential Lending*

Business Development

Kathleen Darcy, *Vice President, Small Business & Community Development*

Jay Tuli, *Business Development & Marketing*

Operations

Liza Pero, *Assistant Vice President, Deposit Operations*

Edward Sottile, *Assistant Vice President, Loan Servicing*

Eric Wildman, *Assistant Vice President, Human Resources*

Locations and Retail Banking Team

Corporate Office

180 Massachusetts Avenue
Arlington, MA 02474
(781) 646-3900



Kathleen Darcy, Small Business & Community Development

East Arlington Branch – Main Office

141 Massachusetts Avenue
Arlington, MA 02474
(781) 641-3900



Bret Schofield and East Arlington Team

Arlington Center Branch

449 Massachusetts Avenue
Arlington, MA 02474
(781) 641-0020



Marc Sannizzaro and Arlington Center Team

Central Square Cambridge Branch

675 Massachusetts Avenue
Cambridge, MA 02139
(617) 497-2500



Mark Orent and Central Square Team



www.leaderbank.com

1-877-691-7900



www.leaderbank.com